

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

**Compliance Audit of
Southwest Airlines Co.**

GOVERNMENT
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November 2, 2009

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager
Rob Malone, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 2, 2009

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the audit of Southwest Airlines Co. (Southwest). Southwest has an airline operating permit from the Airport Commission of the City and County of San Francisco to use the landing facilities at San Francisco International Airport (SFO) for its air transportation business.

Reporting Period: July 1, 2007, through June 30, 2009

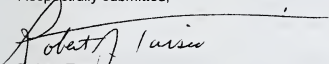
Fees Paid: \$8,149,095

Results:

Southwest correctly reported 22,014 landings and paid all landing fees due for the audit period. As a result, this report contains no recommendations.

The responses from the Airport and Southwest are attached to this report.

Respectfully submitted,


Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Budget Analyst
Civil Grand Jury
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of City-owned real property where rent of \$100,000 or more a year is to be paid to the City and County of San Francisco (City). In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

Southwest Airlines Co. (Southwest) has an airline operating permit (permit) from the Airport Commission (Commission) of the City to use the landing facilities at San Francisco International Airport (SFO) for its air transportation business. The permit, which commenced on May 1, 2007, requires Southwest to submit to the Airport Department (Airport) a monthly report showing Southwest's actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges Southwest a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which Southwest has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During the audit period, the Airport's fee per 1,000 pounds was \$3.01 for fiscal year 2007-08, and \$3.00 for fiscal year 2008-09.

Scope and Methodology

The purpose of this audit was to determine whether Southwest complied with the reporting and payment provisions of its permit. The audit covered the period from July 1, 2007, through June 30, 2009.

To conduct this audit, the audit team reviewed the applicable terms of Southwest's permit and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. The audit team tested whether Southwest accurately reported its revenue aircraft landings and the maximum landing weights of its aircraft landed at SFO, and also verified whether Southwest had any outstanding landing fee payments due to the Airport for the audit period.

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

**Southwest Accurately
Reported All Landings
and Correctly Paid All
Landing Fees**

From July 1, 2007, through July 30, 2009, Southwest reported 22,014 revenue aircraft landings, for which it paid \$8,149,095 in landing fees to the Airport. The exhibit below shows Southwest's reported landings and fees paid.

EXHIBIT	Number of Reported Landings and Landing Fees Paid			
	July 1, 2007, Through July 30, 2009			
Period	Number of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Paid
July 1, 2007 – June 30, 2008*	8,258	1,020,894,000	\$3.01	\$3,072,891
July 1, 2008 – July 30, 2009	13,756	1,692,068,000	\$3.00	5,076,204
Total	22,014	2,712,962,000		\$8,149,095

*Note: Southwest began operations in August 2007.

Source: Airport reports on landing fees and aircraft landings.

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ATTACHMENT A: AIRPORT'S RESPONSE



San Francisco International Airport

October 27, 2009

Mr. Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Audit of Southwest Airlines Co.

Dear Robert:

The Airport agrees with the Audit Report of Southwest Airlines Co. ("Southwest") for the Reporting Period of July 1, 2007, through June 30, 2009, for total Fees Paid in the amount of \$8,149,095.00 and that Southwest correctly reported 22,014 landings and correctly paid all land fees due for the audit period.

The Airport commends Southwest for its diligence and thoroughness in reporting and maintaining accurate landing data.

If you should have any additional questions, please do not hesitate to give me a call at (650) 821-4525.

Sincerely,

Teresa Rivor
Senior Property Manager
Aviation Management

cc: Gary Franzella

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ATTACHMENT B: SOUTHWEST'S RESPONSE



Robert Alderete
Station Manager
San Francisco International Airport
P.O. Box 280147
San Francisco, CA 94128
Office: (650) 534-1115
Fax: (650) 534-1116

October 21, 2009

Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA. 94102

Mr. Tarsia,

I have received my copy of the audit of Southwest Airlines by the Controller's Office, City Services Auditor. I was very pleased to see that we correctly reported our landings during the audit period. Your office was very easy to work with and very gracious in all our interactions. If I can be of any further assistance please don't hesitate to ask.

Regards,

R. Alderete

Robert Alderete
Station Manager
Southwest Airlines
San Francisco International Airport

